



**U.S. Department of the Interior
Office of Inspector General**

AUDIT REPORT

**DIVISION OF AGRICULTURE,
DEPARTMENT OF ECONOMIC DEVELOPMENT
AND AGRICULTURE,
GOVERNMENT OF THE VIRGIN ISLANDS**

**REPORT NO. 97-I-40
OCTOBER 1996**



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

MEMORANDUM

OCT 21 1996

TO: The Secretary
Wilma A. Lewis
FROM: Wilma A. Lewis
Inspector General
SUBJECT SUMMARY: Final Audit Report for Your Information - "Division of Agriculture, Department of Economic Development and Agriculture, Government of the Virgin Islands"
(No. 97-I-40)

Attached for your information is a copy of the subject final audit report. The objective of the audit was to determine whether the Division of Agriculture: (1) adequately controlled collections from fees for the rental of land and equipment and sale of agricultural products; (2) adequately controlled agricultural supply inventories; and (3) had adequate resources to carry out its program objectives.

We concluded that the Division of Agriculture (now the Department of Agriculture) needed to: (1) ensure that farmers were issued, and complied with the terms and conditions of, formal rental agreements for the use of Government-owned land; (2) develop and maintain complete and accurate information on the status of leases and vacant parcels of farmland under its jurisdiction; (3) collect all revenues due the Government for agricultural programs; (4) purchase agricultural products in accordance with existing procurement laws and regulations; (5) improve inventory control over agricultural products held for resale; and (6) repair its office facilities on St. Thomas to make them safe for Division employees. As a result of these deficiencies, the Division lost at least \$90,000 in potential land rental revenues; had about \$13,000 in outstanding accounts receivable; and did not adequately control cash collections of about \$200,000 annually and inventories of agricultural products valued at about \$207,000.

Although we made eight recommendations to the Governor of the Virgin Islands to address these issues, we did not receive a response. Therefore, the eight recommendations are unresolved.

If you have any questions concerning this matter, please contact me at (202) 208-5745 or Mr. Robert J. Williams, Acting Assistant Inspector General for Audits, at (202) 208-4252.

Attachment



United States Department of the Interior

OFFICE OF THE INSPECTOR GENERAL
Washington, D.C. 20240

OCT 21 1996

AUDIT REPORT

Honorable Roy L. Schneider
Governor of the Virgin Islands
No. 21 Kongens Gade
Charlotte Amalie, Virgin Islands 00802

Subject: Audit Report on the Division of Agriculture, Department of Economic Development and Agriculture, Government of the Virgin Islands (No. 97-I-40)

Dear Governor Schneider:

This report represents the results of our audit of the then-Division of Agriculture, Department of Economic Development and Agriculture. The objective of the audit was to determine whether the Division: (1) adequately controlled collections from fees for the rental of land and equipment and sale of agricultural products; (2) adequately controlled agricultural supply inventories; and (3) had adequate resources to carry out its program objectives.

Although the audit was completed and the draft report was issued prior to Hurricane Marilyn in September 1995, we reissued the draft report after the immediate hurricane recovery period to allow the Government the opportunity to review and respond to the audit recommendations. Based on our reevaluation of the findings and recommendations, we believe that, although some of the specific examples cited in the findings may now be dated, the recommendations presented in this report are still valid. The recommendations, if implemented, should result in long-term improvements in the operations of the now-Department of Agriculture.

BACKGROUND

The Government Reorganization and Consolidation Act of 1987 merged the Department of Commerce and the Department of Agriculture into the Department of Economic Development and Agriculture. The Department's Division of Agriculture, with central offices on St. Croix and branch offices on St. Thomas and St. John, is responsible for the following: (1) stimulating, encouraging, and promoting the production and marketing of agricultural crops, livestock, and related produce throughout the Virgin Islands and (2) rendering technical advice and service to farmers and raisers of livestock. Among its activities, the Division rents Government-owned land and equipment for agricultural

purposes and purchases for resale agricultural products, such as fertilizer, feed grain, vegetable seedlings, and fruit trees. Approximately 2,200 acres of farmland were under the Division's jurisdiction. As a means of promoting communication among farmers and to increase public awareness, the Division sponsors annual agricultural food fairs to allow farmers to exhibit their prize produce.

Revenues received by the Division of Agriculture from the rental of farmland and equipment and the sale of agricultural products are deposited into the Agriculture Revolving Fund and are used to purchase rental equipment and items for resale and to employ temporary agricultural workers for planting and reaping. Revenues from veterinary services and slaughtering operations are deposited into the Veterinary Medicine Fund and the General Fund, respectively. During fiscal year 1994, the Division of Agriculture collected a total of \$202,000 in revenues from all sources. The salaries of the Division's 73 permanent employees and other operating expenses totaled \$2.2 million during fiscal year 1994 and were paid from the General Fund.

In March 1995, the Governor of the Virgin Islands proposed legislation to divide the Department of Economic Development and Agriculture into two new organizations: the Department of Tourism and the Department of Agriculture. The Legislature of the Virgin Islands passed legislation that included provisions for creation of the new departments, and the legislation was signed into law by the Governor on May 8, 1995.

SCOPE OF AUDIT

The scope of the audit included agricultural-related transactions that occurred and procedures that were in effect during fiscal years 1993 and 1994. The audit was performed from October 1994 through March 1995 at the Division of Agriculture, Department of Economic Development and Agriculture, and at the Department of Finance.

Our review was made, as applicable, in accordance with the "Government Auditing Standards," issued by the Comptroller General of the United States. Accordingly, we included such tests of records and other auditing procedures that were considered necessary under the circumstances,

As part of our review, we evaluated the internal controls of the Division of Agriculture related to the following: (1) the collection of revenues; (2) the purchase and control of items acquired for resale; and (3) the safeguarding of resources. Internal control weaknesses disclosed by the review are addressed in the Results of Audit section of this report. Our recommendations, if implemented, should improve the internal controls in these areas.

PRIOR AUDIT COVERAGE

The Office of Inspector General has not reviewed the operations of the Division of Agriculture during the past 5 years. However, prior Inspector General audit coverage included the following reports:

- The September 1984 report “Agriculture Revolving Fund, Government of the Virgin Islands” (No. V-TG-VIS-16-84) concluded the following: (1) that accounting and physical controls over supply inventories were not adequate to ensure that the Agriculture Revolving Fund was receiving all revenues due from the sale of agricultural products; (2) that the then-Department of Agriculture was not collecting all amounts due from the rental of farmland and equipment; and (3) that the Department misspent \$150,000 that was appropriated from the Agriculture Revolving Fund to purchase livestock feed under an emergency drought relief program.

- The October 1986 report “Real Property Management, Government of the Virgin Islands” (No. V-TG-VIS-13-85) concluded that the then-Department of Agriculture was not effectively managing the use of about 1,600 acres of the Harvland property on St. Croix, which was placed under its administration for agricultural purposes. Specifically, the Department: (1) had not awarded leases for more than 1,000 acres of land, although it had 196 valid lease applications on file; (2) lost more than \$3,000 in rental revenues over a 14-month period because of ineffective rent collection practices; and (3) allowed unauthorized persons to occupy some of the land.

Based on our current review, we found that deficiencies identified in the two reports that related to the collection of revenues and the control of inventory items still exist.

RESULTS OF AUDIT

We found that the Division of Agriculture did not: (1) ensure that farmers were issued, and complied with the terms and conditions of, formal rental agreements for the use of Government-owned land; (2) have complete and accurate information on the status of leases and vacant parcels of farmland under its jurisdiction; (3) collect all revenues due the Government for the rental of land and equipment, the resale of agricultural products, and veterinary services; (4) obtain proper authorization before placing orders for agricultural products and adequately control inventories of such items; and (5) ensure that facilities on St. Thomas for its personnel were adequate. However, we found that the Division did have adequate resources to carry out its program objectives.

Title 3, Section 335, of the Virgin Islands Code defines the powers and duties of the Department of Economic Development and Agriculture, and Title 33, Section 3018, of the Code describes the approved sources of revenues and uses of the Agriculture Revolving Fund. Regulations regarding the control of collections and material and supply inventories are contained in the Government’s Accounting Manual and Property Manual, respectively. Procurement regulations are contained in Title 31, Chapter 23, of the Virgin Islands Code

and the Virgin Islands Rules and Regulations. The identified problems occurred primarily because the Division of Agriculture did not have formal policies and procedures for some of these activities, did not comply with existing policies and procedures for some of these activities, or did not provide sufficient oversight of these activities. As a result, the Division: (1) lost at least \$90,000 in potential land rental revenues; (2) had about \$7,500 in uncollected land rental fees and \$6,500 in outstanding accounts receivable for equipment rental fees and veterinary service charges; and (3) did not have adequate control over cash collections, which totaled about \$200,000 each year, or inventories of agricultural products, which had a total value of at least \$207,000.

Rental and Other Collection Activities

Title 31, Section 202, of the Virgin Islands Code makes the Department of Property and Procurement responsible for the management of the Government's business and commercial properties and the Department of Housing, Parks, and Recreation responsible for the management of the Government's residential rental properties. However, we could find no specific delegation of authority with respect to the management of Government property used for agricultural purposes. Despite this oversight, the Division of Agriculture and its predecessor organization, the Department of Agriculture, have traditionally managed the Government's agricultural land. This is composed of 1,661 acres at the Harvland property on St. Croix and 531 acres at two locations on St. Thomas. Because the Division lacked formal policies and procedures for its land rental activities, these activities were not being effectively administered.

Land Rental Agreements. The Division was not consistent in the method it used to authorize the use of Government-owned land for agricultural purposes. As of September 30, 1994, 125 farmers were authorized by the Division to conduct agricultural activities on Government-owned land. Of these, 51 had formal lease agreements, 64 had land use permits, and 10 had only verbal authorization. The 74 farmers who did not have lease agreements were allowed by the Division to maintain possession of the designated plots of land for extended time periods through annual renewal of their land use permits and verbal authorizations. However, this practice was not in compliance with Title 31, Section 205(c), of the Virgin Islands Code, which requires that leases or use permits for Government-owned land for periods exceeding 1 year, including allowable extensions and renewals, be approved by the Legislature of the Virgin Islands.

Because the Government did not always have formal lease agreements, it was difficult for the Government to hold landholders accountable for complying with lease and land use permit requirements imposed by the Division. For example, a St. Croix farmer erected a permanent residential structure on Government-owned land that he had been renting from the Division since 1988, although such nonagricultural use was prohibited by lease agreement or land use permit. Two other St. Croix farmers who were occupying Government-owned land under land use permits transferred use of the land to a third farmer without obtaining prior approval from the Division. We were unable to determine whether the two farmers who had permits for use of the land were receiving payment from

the third farmer. However, the subleasing of farmland would have been prohibited under lease agreements. Further, both farmers were delinquent in their rental payments to the Division.

During fiscal year 1994, the 125 farmers who had been authorized to use Government-owned land were assessed rental fees totaling about \$24,300, at the rate of \$15 per acre per year. Although Division officials told us that they believed the \$15 per acre per year rental fee was reasonable, they could not provide documentation to support why the rate was reduced from \$50 to \$15 per acre after Hurricane Hugo in 1989. There has been no subsequent reevaluation of the rental rate by Division officials since its reduction to the \$15 per acre rate.

Even with the reduced rental rate, many farmers did not make the required rental payments, and the Division did not aggressively enforce collection. For example, 42 of the 125 authorized farmers were delinquent a total of \$3,900 in rental fees for fiscal years 1993 and 1994. Additional rental fees of \$3,600 were still owed by farmers whose leases had been terminated because of nonpayment. In one case, a farmer was 4 years delinquent in paying rental fees totaling \$2,300 before the Division began collection efforts. Eviction notices were not sent to farmers until their payments were delinquent for 2 to 5 years. However, even when such notices were issued, they were not enforced; that is, some farmers continued to occupy and use the land. Rent collection efforts were lacking because the Division had not assigned this responsibility to a specific employee.

We also found that the Division of Agriculture could not verify whether 62 acres of land on St. Croix were vacant or were being utilized. Records showed that of the 1,661 acres of the Harvland property, only 1,599 acres were leased or permitted for use by farmers. The records did not show the status of the remaining 62 acres.

On St. Thomas, 26 farmers were allowed to cultivate 300 acres of land at Estate Bordeaux over a period of 20 years without any formal authorization from the Division of Agriculture. This left the Government open to competing claims for use of the land by the 26 farmers and a livestock association that said it had an agreement with the Government for use of a large tract of land that included 200 of the 300 acres being used by the farmers. The intervention of the Governor, in March 1995, was required to settle the issue.¹ Further, although the farmers were considered to be "squatters" and had never made any rental payments to the Government, over the years the Division actively supported their farming activities by constructing wells and darns, surveying the land and marking its boundaries, and assisting the farmers in obtaining disaster assistance from the Federal Emergency Management Agency after Hurricane Hugo. If the 26 farmers, who are still not making rental payments, had been given formal leases for use of the land and had therefore been required to pay the standard \$15 per acre rental fee over the 20-year

¹A compromise was reached in which the farmers retained the land they were using and the livestock association was given use of adjacent land.

period, the Division would have collected an additional \$90,000 for the Agriculture Revolving Fund.

Accounts Receivable. Section 310 of the Government's Accounting Manual requires agencies to keep up-to-date records of bills issued that are pending collection and to send delinquency notices to customers whose bills become past due, requesting payment within 10 days. Despite these requirements, the Division of Agriculture did not maintain complete and up-to-date accounts receivable records or issue, on a regular basis, notices to customers whose accounts were delinquent.

During fiscal year 1994, the Division issued bills totaling \$19,500 to customers for equipment rental fees and veterinary service charges. However, the Division could not provide us with a current list of the outstanding balances on those bills. Therefore, we reconstructed the outstanding balances for the 1994 bills by tracing payments to the receipts issued by the Division's cashier. We determined that for the \$19,500 in bills issued, bills totaling \$6,500 were still outstanding as of February 1995. Additionally, because the Division did not issue bills for land rental fees, the Division's records did not show land rental fees of \$7,500 that were also outstanding.

Cash Collections. During fiscal year 1994, the Division's cashiers collected almost \$202,000 from land and equipment rentals, the resale of agricultural products, and veterinary and slaughtering services. However, because the Division did not provide adequate oversight of the cash collection process, there was no assurance that all amounts owed to the Government were actually collected or that all amounts collected were deposited into the proper accounts.

Section 310 of the Government's Accounting Manual requires all cashiers to take the following actions: (1) issue official cashier receipts for all collections made; (2) safeguard collections in a vault or safe; and (3) make deposits on a daily basis. However, the cashiers did not always comply with these requirements. For example, the Division's facilities on St. Croix are spread over a large area, and goods and services are provided to the public at different locations within the complex. Assistant cashiers at these locations made the collections and issued unnumbered, unofficial receipts to the customers. The funds were later turned in to the Division's cashier, along with copies of the unofficial receipts. The cashier then issued official receipts for the amounts received from the assistant cashiers. This procedure did not demonstrate effective internal controls in two ways: first, the customer should have been issued an official, prenumbered receipt at the time of the initial transaction, and second, there was no way to ensure that the assistant cashiers were forwarding all funds collected to the main cashier. Additionally, we found that assistant cashiers were not stationed at all locations where agricultural products were sold. Therefore, customers could leave the Division's complex without making any payment for the items received instead of going to the business office to pay the main cashier.

In November 1994, we conducted an unannounced cash count at the Division's St. Croix facilities. We found that the cashier kept cash in a cash pan that had a broken lock and in different drawers of his desk. The cash count also disclosed an apparent \$334 overage, which occurred because official receipts had not been issued for all funds received by the cashier. Further, we found that collections were being held for up to 4 days before being deposited.

Subsequent reviews of operating procedures disclosed that the cashier was also responsible for maintaining the Division's accounts receivable records. This violates a basic tenet of effective internal controls, which requires that there be a segregation of duties between the person who handles cash collections and the person who maintains the accounting records on which those collections are based.

Procurement and Inventory Control

Title 31, Section 234, of the Virgin Islands Code requires that no purchase be made by any department or agency without a written order approved by the Commissioner of Property and Procurement. However, the Division routinely placed telephonic orders with vendors and did not prepare the appropriate expenditure documentation until the items had already been received. We found that during fiscal year 1994, the Division processed 46 miscellaneous disbursement vouchers, totaling more than \$118,000, in this reamer. In one case, a \$5,000 order was placed on July 5, 1994, with an off-island vendor, but the order documents were not prepared and processed until August 15, 1994, or 29 working days later. Division of Agriculture officials told us that they used this method of procurement because it was faster. However, this practice violated effective internal controls by allowing Division officials to obligate the Government for purchases without obtaining proper authorization from designated procurement officials.

The Government's Property Manual requires each department or agency to maintain inventory control records and perform a complete physical inventory of material and supply inventories at least once each year. However, the Division did not comply with these requirements. Available financial records indicate that during fiscal year 1994, the Division expended about \$322,000 for the purchase of agricultural products for resale. During the same period, the Division collected about \$115,000 from the sale of such products. Even without taking into account any items on hand at the beginning of the fiscal year, at year-end the Division should have had an inventory of unsold agricultural products valued at about \$207,000. However, we found that the Division had no inventory control records and had not performed annual physical inventories. Therefore, agricultural products of at least \$207,000 were not being adequately controlled and were subject to loss.

Building Maintenance

The Division of Agriculture's offices on St. Thomas were located in a building at Estate Dorothea that was a safety hazard to employees and customers. The structure was

significantly deteriorated and had leaks in the roof, windows that were falling off their hinges, ceiling and wall panels that were falling off, and holes in the wooden floor. The building, which at one time also housed the U.S. Department of Agriculture's veterinarian, was in such a state of deterioration that the Federal agency directed the veterinarian to stop using the building as his regular work site. We believe that immediate action should be taken to repair this building or to move the Division of Agriculture's employees to safer and more suitable facilities.

Recommendations

We recommend that the Governor of the Virgin Islands:

1. Submit legislation to revise Title 31, Section 202, of the Virgin Islands Code to specifically delegate the authority to manage Government-owned land that is designated for agricultural purposes to the Department of Agriculture.
2. Ensure that the Department of Agriculture establishes and implements formal policies and procedures to provide that individuals and organizations are authorized to use Government-owned land for agricultural purposes only upon execution of land rental agreements, and ensure that the Department enforces the provisions of the land rental agreements, including timely payment of land rental fees and any limitations on the use of the Government-owned land.
3. Ensure that the Department of Agriculture maintains up-to-date records of the lease status of Government-owned land under its jurisdiction that is designated for agricultural purposes.
4. Ensure that the Department of Agriculture reevaluates the existing \$15 per acre per year land rental fee in light of current economic conditions and rental fees charged for similar land by private owners. The results of the evaluation should be fully documented.
5. Ensure that the Department of Agriculture complies with the accounts receivable policies and procedures contained in the Government's Accounting Manual which require complete and accurate accounts receivable records to be maintained for amounts owed by lessees and other customers and timely collection enforcement actions to be taken with regard to delinquent accounts.
6. Ensure that the Department of Agriculture complies with the cash collection policies and procedures contained in the Government's Accounting Manual which require official cashier receipts to be issued for all amounts collected from customers, funds to be physically safeguarded, collections to be deposited on a daily basis, and cash collection and accounts receivable record-keeping functions to be adequately segregated.
7. Ensure that the Department of Agriculture complies with the procurement laws and regulations contained in Title 31, Chapter 23, of the Virgin Islands Code and Title 31,

Chapter 23, of the Virgin Islands Rules and Regulations; and the inventory control regulations contained in the Government's Property Manual to ensure that written purchase orders are issued for all purchases, inventory control records are maintained for agricultural products purchased for resale, and annual physical inventories are performed for agricultural products in storage.

8. Take actions to either repair the building at Estate Dorothea or move the employees to safer and more suitable facilities.

We originally provided the draft report to the Governor of the Virgin Islands and the Commissioner of Agriculture on August 10, 1995, and requested a response by September 29, 1995. Because of Hurricane Marilyn, we reissued the draft report on January 22, 1996, and extended the response due date to March 31, 1996. However, we had not received a response from the Governor of the Virgin Islands as of September 30, 1996. Therefore, we are issuing this final report without a response, and the eight recommendations are unresolved (see Appendix 2).

The Inspector General Act, Public Law 95-452, Section 5(a)(3), as amended, requires semiannual reporting to the U.S. Congress on all audit reports issued, the monetary impact of audit findings (Appendix 1), actions taken to implement audit recommendations, and identification of each significant recommendation on which corrective action has not been taken.

In view of the above, please provide a response, as required by Public Law 97-357, to this report by December 20, 1996. The response should be addressed to Mr. Arnold van Beverhoudt, Director, Insular Area Audits, Caribbean Regional Office, Federal Building - Room 207, Charlotte Amalie, Virgin Islands 00802. The response should include the information requested in Appendix 2.

Sincerely,



Wilma A. Lewis
Inspector General

APPENDIX 1

CLASSIFICATION OF MONETARY AMOUNTS

<u>Finding</u>	<u>Lost Revenues</u>
Revenue Collection Land Rental Agreements	\$90,000*

* Amount represents local funds.

APPENDIX 2

STATUS OF AUDIT REPORT RECOMMENDATIONS

<u>Finding/Recommendation Reference</u>	<u>Status</u>	<u>Action Required</u>
1-8	Unresolved.	Provide a response to each recommendation. If concurrence is indicated, provide a plan identifying actions to be taken, including target dates and titles of officials responsible for implementing each recommendation. If nonconcurrence is indicated, provide specific reasons for the nonconcurrence.

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